Q2 COVERED CALL COMMENTARY

July| 2021

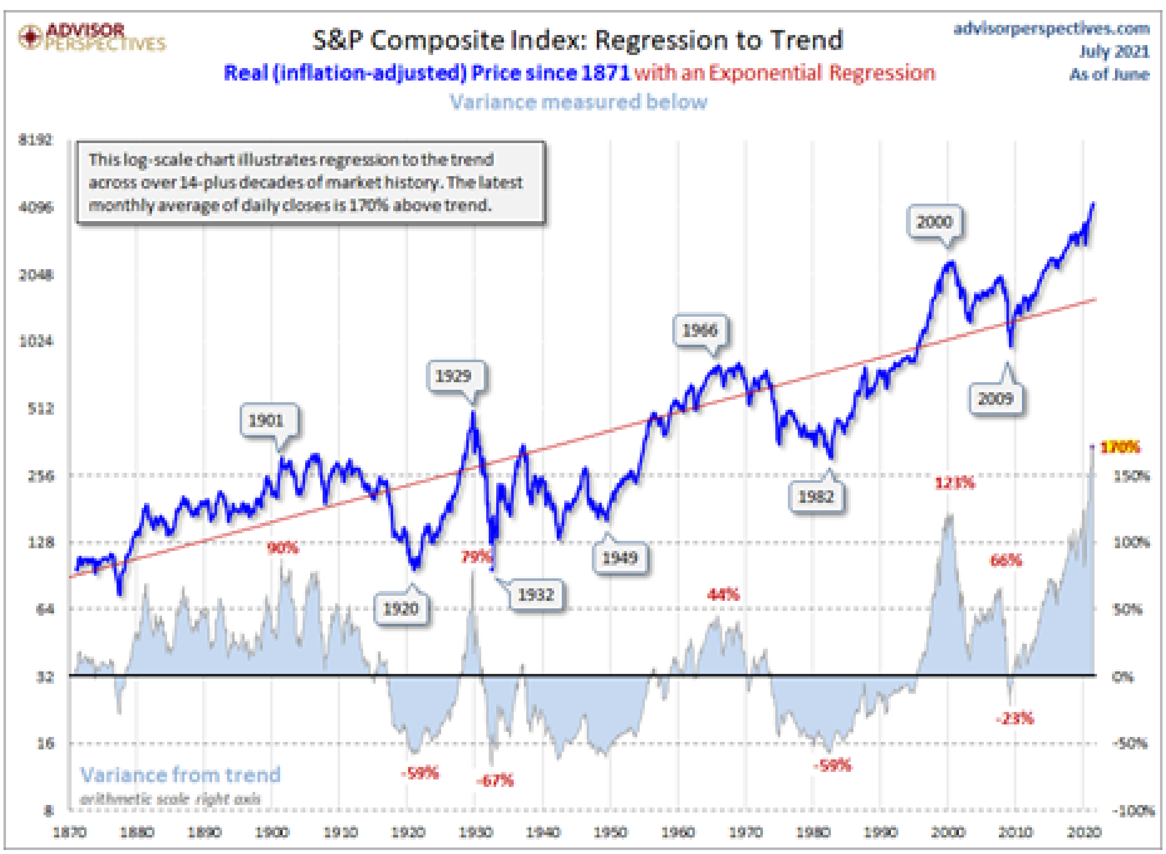
Q2 2021: The Ascent is the Easy Part

Markets continue to set new records, almost daily. And yes, it's the growth stocks that are once again leading the way.

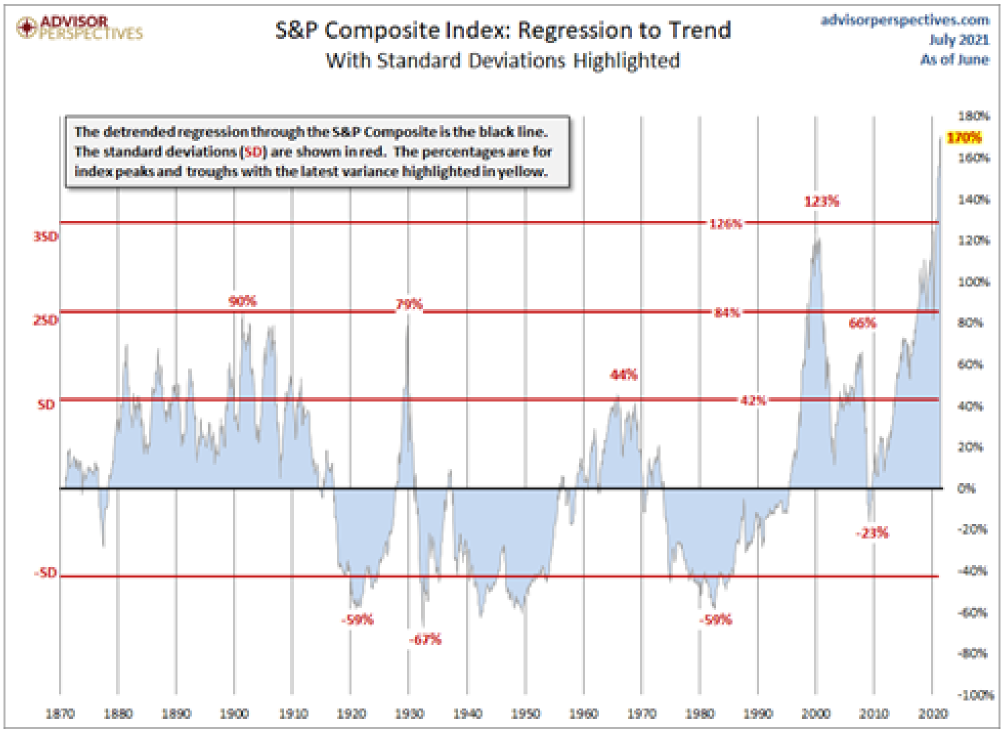
We've looked at many valuation metrics in the past, but clearly the market is not concerned with them. The Fed's accommodative policy has kept investors looking forward, not backward. But there is one more historical reference point we thought was worth pointing out. Most people see at least some value in looking at long term trend lines. Deviation from a long-term trend will of course occur. Bull & bear markets can be driven by recessions, depressions, super-cycles, speculation, and yes...Fed policy. But most do expect that markets will eventually revisit the trend.

Last month we set a new record for variance above the long-term trend of the S&P 500. The chart below shows the S&P Composite stretching back to 1871, based on the real (inflation-adjusted) monthly average of daily closes, courtesy of Advisor Perspectives. The analysis uses a semi-log scale to equalize vertical distances for the same percentage change regardless of the index price range. Otherwise, the past 10 years would dominate the chart.

The regression trendline drawn through the data clarifies the secular pattern of variance from the trend — those multi-year periods when the market trades above and below trend. The peak in 2000 marked an **unprecedented 123%** overshooting of the trend — substantially above the overshoot in 1929. The index had been above trend for two decades, with one exception: it dipped about 15% below trend briefly in March of 2009. At the beginning of July 2021, it is **170% above trend**. The major troughs of the past saw declines in excess of 50% below the trend. If the current S&P 500 were sitting squarely on the regression, it would be at the 1567 level.

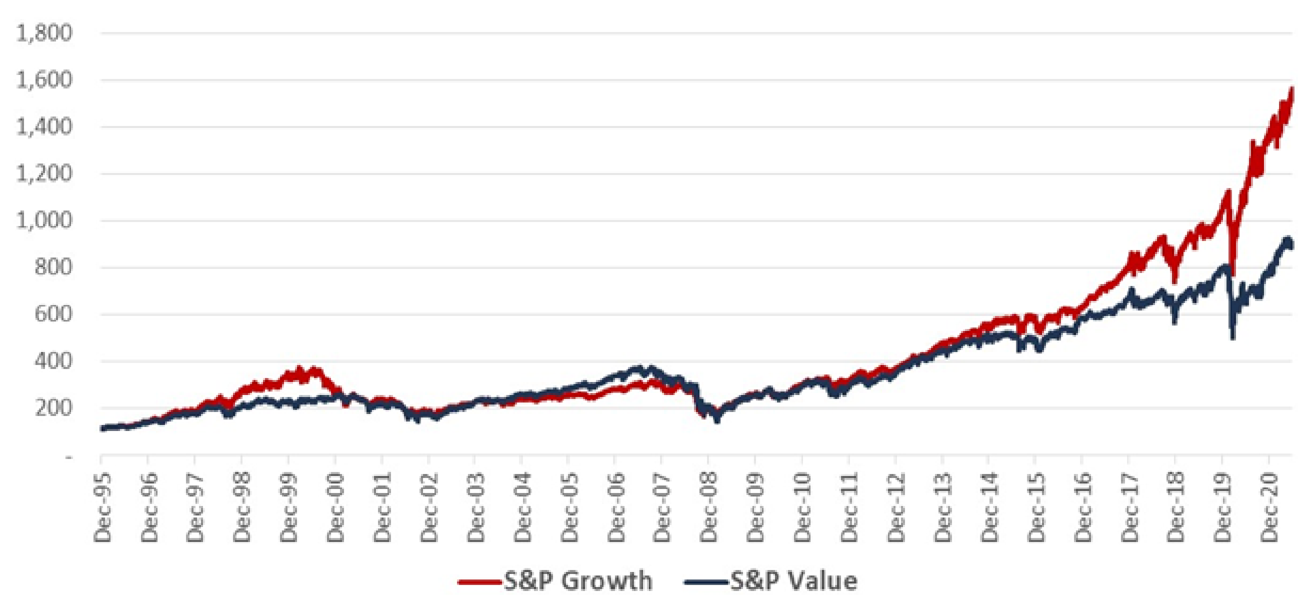


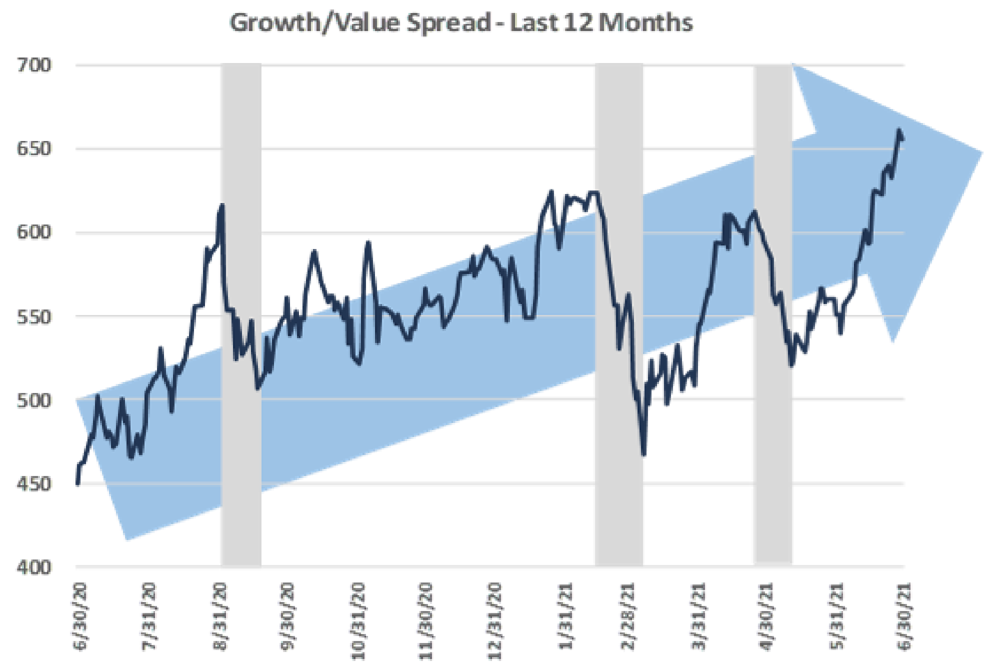
Here is a close-up of the regression values (the bottom part of the previous chart) with the regression itself shown as the zero line. The standard deviations are highlighted with red lines. We can see that the early 20th-century real price peaks occurred at around the second deviation. Troughs prior to 2009 have been more than a standard deviation below trend. The peak in 2000 was north of 3 deviations, and the 2007 peak was around two deviations. Both are well below the level of the latest data point. Yes, the Fed has our backs. But that doesn't change the fact that this market is exceptionally expensive.



<u>Thanks For Playing, Mr. Value</u>

We reflect on the relative performance of value and growth stocks after each quarter end. And everyone knows that value investors have had very few things to cheer about over the past 5 years. The chart has been updated for Q2 below.





The reality is this continues to be a growth market. Value has had its moments over the past year, usually lasting about a month. But the trend continues to be overwhelmingly towards growth stocks. To us, this means investors are not yet convinced about the strength of the economic rebound, or the probability of significant inflation. It is the easy Fed policy that continues to fuel the growth trade.

Knowing the extreme stock market valuation and the fact that the spread between growth and value is also at an extreme, we continue to find appeal in the high quality, dividend paying category. Combined with good option income, that makes for a good total return.

The Ascent is the Easy Part

We'll leave you with this analogy.

Left: Mount Everest; Right: Edmund Hillary *Tenzing Norgay at the summit in 1953*

Mount Everest is the highest mountain in the world, at 29,035 feet. In 1953, Sir Edmund Hillary of New Zealand and Sherpa mountaineer Tenzing Norgay became the first climbers to accomplish the amazing feat of reaching its summit. Three years passed before another team reached the top (in 1956).

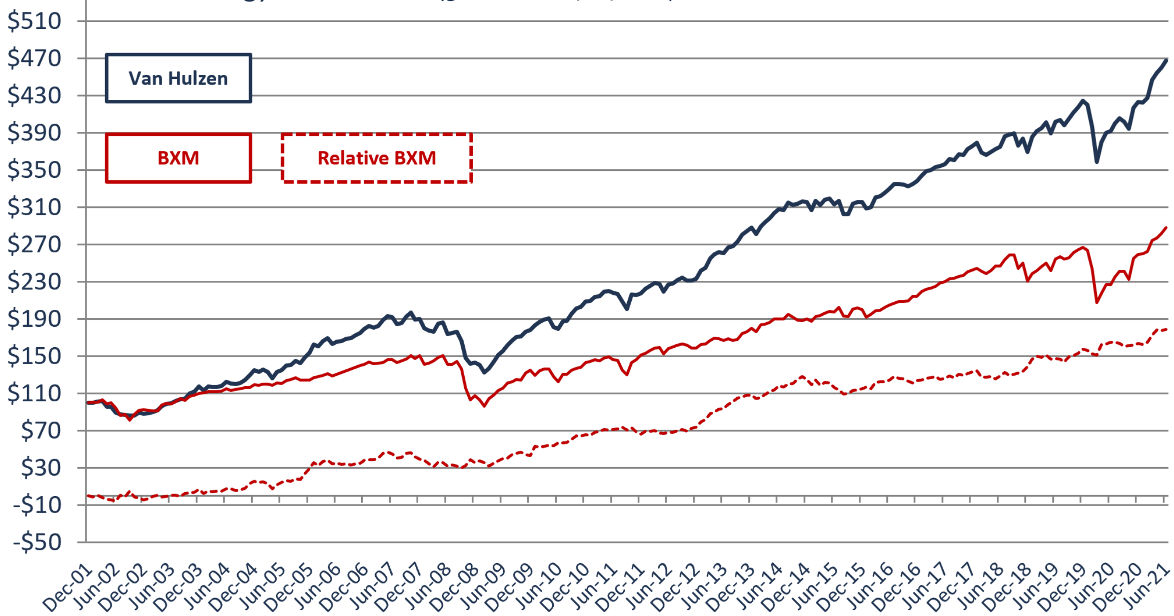
Since then, 5,790 people have summited Everest. But it's an extremely dangerous task, with more than 300 people having died in pursuit of this dream. What's surprising to most is that the ascent is the "easy" part. According to a British Medical Journal study in 2008, covering an 85-year period, only 15% died on the way up, mostly from avalanches or falls. But it's the cumulative exhaustion and altitude sickness (from a lack of oxygen) experienced by the climbers that actually makes the descent **far more** deadly than the climb itself. Most die on the way down.

The Fed is doing everything in its power to make sure the market's ascent ends differently. Let's hope they succeed; however a wished outcome is not always what happens in real life.....like the first chart of the article shows.

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 06/30/2021)



Returns (annualized)*	Jun 2021	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	1.6%	4.6%	10.4%	10.4%	19.3%	7.6%	7.2%	6.1%	7.9%	8.2%
Van Hulzen (Net)	1.6%	4.5%	10.1%	10.1%	18.7%	7.0%	6.6%	5.5%	7.2%	7.3%
BXM	2.2%	5.1%	11.1%	11.1%	27.3%	5.4%	7.1%	6.1%	7.0%	5.6%
Difference (Gross-BXM)	-0.6%	-0.5%	-0.7%	-0.7%	-7.9%	2.2%	0.2%	0.0%	0.9%	2.6%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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